MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018/2019

BFN 2114 – INVESTMENTS

(ALL SECTIONS)

4 MARCH 2019
9.00 A.M. – 11.00 A.M.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This questions paper consists of 6 pages with **TWO** sections.
2. Answer **ALL** questions in **Sections A and B.** The marks for each section are given in the question paper.
3. Please write your answers for Section A and B in the answer booklet.

SECTION A (40 marks): Answer ALL questions. Choose the best answer. Each question carries 2 marks.

Q1. Which of the following is NOT a use of security market indicator series?

a. To use as a benchmark of individual portfolio performance
b. To develop an index portfolio
c. To determine factors influencing aggregate security price movements
d. To use in the measurement of diversifiable risk
e. To use in the measurement of systematic risk

Q2. In a price weighted average stock market indicator series, the following type of stock has the greatest influence:

a. the stock with the lowest price.
b. the stock with the highest price.
c. the stock with the highest market capitalization.
d. the stock with the lowest market capitalization.
e. the stock with the highest price earnings ratio.

Q3. Exchange traded funds

a. are exactly the same as index mutual funds.
b. can be bought and sold like common stocks.
c. cannot be sold short.
d. have a high management fee.
e. cannot be timed for capital gain tax realizations.

Q4. The weak form of the efficient market hypothesis states that

a. successive price changes are dependent.
b. successive price changes are independent.
c. successive price changes are biased.
d. successive price changes depend on trading volume.
e. properly specified trading rules are of value.

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Q5. According to the semistrong-form efficient market hypothesis, which of the following types of information are fully reflected in stock prices?

a. Rates of return, trading volume, and news about the economy
b. Dividend and earnings announcements
c. Return, trading volume, and block trades
d. Earnings announcements and rates of return
e. All of these are correct.

Q6. In an event study the objective is to

a. determine whether it is possible to predict stock prices.
b. conduct a time series analysis of returns.
c. examine the cross-sectional distributions of returns.
d. determine how fast stock prices adjust to news.
e. determine normal price earnings ratios.

Q7. Confirmation bias refers to the situation in which

a. investors have a propensity to sell winners too soon and hang on to losers too long.
b. investors ignore bad news and overemphasize good news.
c. investors tend to follow the herd.
d. investors put more money into a failure rather than into a success.
e. investors are all noise traders.

Q8. Which of the following is NOT considered an assumption of technical analysis?

a. Market value is determined solely by supply and demand.
b. Supply and demand are governed by both rational and irrational factors.
c. Security prices tend to move in trends that persist for an appreciable length of time.
d. Stock prices follow a random walk.
e. Changes in trend are caused by the shifts in supply and demand relationships.

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Q9. Which of the following is correct?

a. if estimated value > Market price, you should buy.
b. if estimated value > Market price, you should sell.
c. if estimated value < Market price, you should do nothing.
d. if estimated value < Market price, you should buy.
e. if estimated value > Market price, you should do nothing.

Q10. In 2018, Mont Black Berhad issued a RM100 par value preferred stock that pays a 9 percent annual dividend. Due to changes in the overall economy and in the company's financial condition, investors are now requiring a 10 percent return. What price would you be willing to pay for a share of the preferred if you receive your first dividend one year from now?

a. RM100
b. RM110
c. RM75
d. RM90
e. RM85

Q11. All of the following are ways in which a firm can increase its growth rate of equity earnings without any external financing EXCEPT

a. decreasing its dividend payments.
b. increasing its retention ratio.
c. increasing its return on equity (ROE).
d. increasing its return on assets (ROA).
e. All of these are correct.

Q12. The Conference Board has derived the following indicator series in order to monitor business cycles:

a. money2, leading, and lagging
b. leading, coincident, and consumer expectations
c. leading, coincident, and lagging
d. leading, coincident, and money
e. consumer expectations, leading, and lagging

Continued...

Q13. _____ do well as the economy recovers.

a. Financial stocks
b. Consumer durable goods
c. Capital goods
d. Cyclical companies
e. Consumer staples

Q14. Which of the following is NOT considered a relative valuation technique?

a. price-earnings ratio
b. price/cash flow ratio
c. price/book value ratio
d. price/cost of goods sold ratio
e. price/sales ratio

Q15. Which of the following is NOT considered in the price-earnings (P/E) ratio technique?

a. firm's required rate of return on equity (k)
b. firm's dividend payout ratio (D/E)
c. firm's expected growth rate of dividends (g)
d. All of these are correct (that is, all are components of the P/E ratio).
e. None of these are correct (that is, none are components of the P/E ratio).

Q16. Given Star Berhad's beta of 1.25 and a risk-free rate of 6 percent, what is the expected rate of return assuming a 12 percent market return?

a. 1.25 percent
b. 10.5percent
c. 13.5 percent
d. 12 percent
e. 31.5 percent

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Q17. Defensive companies are firms in which

a. sales, earnings, and cash flows are extremely uncertain and not necessarily related to the economy.
b. sales, earnings, and cash flows are likely to withstand changes caused by the economic environment.
c. sales, earnings, and cash flows are heavily influenced by aggregate business activity.
d. sales, earnings, and cash flows are growing exponentially.
e. None of these are correct.

Q.18 The aggregate market currently has a retention ratio of 60 percent, a required rate of return of 12 percent, and an expected growth rate for dividends of 4 percent. Compute the current earnings multiplier.

a. 2.5
b. 5.0
c. 7.5
d. 10.0
e. 12.5

Q19. In tests of the semistrong-form efficient market hypothesis, an adjustment for market effects is carried out by

a. calculating the historical return.
b. calculating the market rate of return.
c. calculating the abnormal rate of return.
d. calculating the cross-sectional return.
e. calculating the monthly return.

Q20.Which of the following is **not** characteristic of the "growth" phase in the industry life cycle?

a. Consumer will accept uneven quality
b. Products have technical and performance differentiation
c. High advertising costs
d. Low profits
e. Many competitors

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SECTION B (60 marks): Answer ALL questions.

Question 1

(a) Discuss weak and semi-strong form of efficient market hypothesis (EMH). You are required to discuss their implications on technical and fundamental analyses, respectively. **(12 marks)**

(b) Discuss industries that you think will be the growth industries of the next decade. **(8 marks)**

(Total: 20 marks)

Question 2

(a) Describe how traders and investors use moving average trading rules and relative strength index (RSI) of 14 days for stock trading. Show the buy and sell signals of these trading rules in two separate graphs. **(12 marks)**

(b) Osaka Berhad just paid an annual dividend of RM1.30. The next dividend will be paid one year from today. Osaka Berhad expects a constant growth of 4% in dividends forever. The required rate of return for this company's common stock is 11%. What is the value of one share of common stock? If the market price is traded at RM16.20, should you buy the share, and why? **(8 marks)**

(Total: 20 marks)

Question 3

(a) Corn Berhad has a beta of 1.15, an expected dividend of RM2.10, and an expected dividend growth rate of 3 percent for the foreseeable future. The FTSE Bursa Malaysia KLCI expected return is 15 percent, and the Treasury bill rate is 5 percent. You are required to do the following:

(i) Calculate the required return on Corn Berhad. **(3 marks)**
(ii) Calculate the price of Corn Berhad. **(3 marks)**

(b) Explain briefly market-value weighted index and give one example of market-value weighted index. **(4 marks)**

(c) Discuss the key tenets in value investing that applied by the most successful investor, Warren Buffett. **(10 marks)**

(Total: 20 marks)

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